

**DAYTON INDEPENDENT
BOARD OF EDUCATION**
ANNUAL FINANCIAL REPORT

Year Ended June 30, 2008

**DAYTON INDEPENDENT
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Dayton Independent School District
Dayton, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Dayton Independent School District (District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District audits in *Appendix I (General Audit Requirements)* and *Appendix II (State Audit Requirements)* of the *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Dayton Independent School District as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

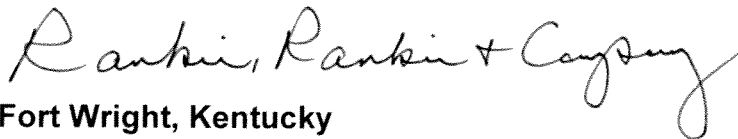
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internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the District. The combining and individual fund financial statements on pages 37 to 41 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Fort Wright, Kentucky
October 24, 2008**

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**DAYTON INDEPENDENT SCHOOL DISTRICT – DAYTON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

As management of the Dayton Independent School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$375,079. The ending cash balance, including activity funds, for the District was \$117,963.
- The General Fund had approximately \$7.3 million in revenue, which primarily consisted of local real estate and property taxes, the state program (SEEK), on-behalf payments, and motor vehicle taxes. Excluding inter-fund transfers and lease proceeds, there were \$7.5 million in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district’s total debt decreased by \$276 thousand during the current fiscal year. A new KISTA bus lease was incurred for the purchase of a bus for \$90,989. \$366,785 in debt was retired.
- The District remains committed to adopting a competitive salary structure for teachers and other staff provided funding is available.
- The District assessed a 4% increase in property tax rates for 2008 in order to recover a portion of the reduction in state revenues that were decreased due to an increase in property valuation in 2008.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Dayton Independent Schools

200 Clay Street
Dayton, Kentucky 41074-1201
491-6565
(Fax 292-3995)

Gary Rye
Superintendent

DAYTON INDEPENDENT SCHOOL DISTRICT – DAYTON, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2008

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Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service operations and day care services.

All other activities of the district are included in the governmental funds. The basic governmental fund financial statements can be found on pages 13-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2.105 million as of June 30, 2008.

The largest portion of the District's net assets reflects its investment in capital assets e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the

resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2007 and 2008

	2007	2008
Current Assets	\$ 576,464	\$ 349,953
Noncurrent Assets	4,748,138	4,708,000
Total Assets	<u>\$ 5,324,602</u>	<u>\$ 5,057,953</u>
Current Liabilities	\$ 486,300	\$ 490,693
Noncurrent Liabilities	2,786,284	2,462,669
Total Liabilities	<u>\$ 3,272,584</u>	<u>\$ 2,953,362</u>
Net Assets		
Investment in capital assets (net of debt)	\$ 1,878,186	\$ 2,113,844
Restricted	149,547	153,509
Unrestricted	24,285	(162,762)
Total Net Assets	<u>\$ 2,052,018</u>	<u>\$ 2,104,591</u>

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2008, net of Interfund transfers and on-behalf payments, were \$8.209 million.
- General fund budget compared to actual revenue (net of on-behalf payments) varied slightly from line item to line item with the ending actual balance being \$77 thousand more than budget or approximately three percentage points.
- The total cost of all programs and services was \$9.045 million net of debt service.
- General fund budget expenditures to actual expenditures (net of on-behalf payments) varied from line item to line item with the ending actual balance being \$22 thousand less than budget. This variance reflects the fact that on-behalf expenditures were not included in the budget.

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2007 and 2008 of the District's governmental funds.

	2007	2008
Revenues:		
Local revenue sources	\$ 1,412,516	\$ 1,453,663
State revenue sources	6,496,085	6,873,693
Federal revenue	978,563	969,650
Investments	48,234	28,870
Other	131,502	52,112
Net sale of bonds	-	-
Total revenues	<u>9,066,900</u>	<u>9,377,988</u>
Expenses:		
Instruction	\$ 5,542,668	\$ 5,811,214
Student support services	343,882	391,814
Instructional staff support	349,722	413,215
District administration	441,813	421,396
School administration	480,138	525,695
Business support	326,650	330,020
Plant operations	822,471	858,505
Student transportation	150,763	134,681
Community service activities	133,280	132,186
Capital outlay	-	90,989
Debt service	471,026	463,818
Total expenses	<u>9,062,413</u>	<u>9,573,533</u>
Expenses in excess of revenues	\$ <u>4,487</u>	\$ <u>(195,545)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

The District added over \$51,743 in new technology equipment and purchased a new bus for approximately \$92,000. Debt decreased from \$2,869,952 to \$2,594,156, a decrease of \$275,796, through retirement of bonds and payments on capital leases.

BUDGETARY IMPLICATIONS

The Dayton Independent Schools' 2008-2009 Working Budget includes a contingency of 2.81%. The Dayton Independent Schools have taken the following actions to ensure the ending balance of the 2008-2009 school year is at, or above, the required 2%.

Athletic Contests

- Schedules to be approved based on distance
- Require approval of Athletic Director, Principal, and Superintendent

Athletic Transportation

- Consolidation of trips by squads of the same sport

Bus Driver Overtime

- Drivers of regular routes also drive for athletic and extracurricular trips. When a driver exceeds 40 hours per week in driving in combination of their regular driving time and the extra driving time, the driver must be compensated at the Overtime

Rate (time and a half) for all hours exceeding 40 hours for the week. The Director of Transportation has been instructed to assign those drivers first who have not, or will not, exceed 40 hours per week. Consideration is being given to charging the activity for the additional ½ time wages required for drivers who exceed 40 hours per week.

- Coaches of various sports are encouraged to obtain a CDL to help reduce the cost of transporting athletic teams. To date none have done so with the exception of the former Girl's Softball coach. Doing this would greatly reduce the costs for drivers for athletic contests.

Field Trips

- Approval based upon instructional/curriculum value and distance
- Require final approval by Superintendent

Out-of-District Travel by Staff

- Approval by Superintendent/Designee required
- No more than one individual to attend unless required by activity

Maintenance Repairs

- Utilization of outside vendors limited to emergency and/or expertise required situations
- Utilization of outside vendors requires prior approval by superintendent

Maintenance Supplies

- Purchase on as-needed basis rather than stockpiling supplies
- Utilization of Purchasing Cooperative (UPC & KEDC) for supplies

Maintenance Overtime

- All requests for overtime must have prior approval of Superintendent

Utilities

- An Energy Audit has been performed with recommendations provided. A detailed presentation of the recommendation will be presented to the Board of Education at its September meeting.
- Maintenance/Custodial staff and all faculty/staff members have been notified of energy saving steps to implement.
- All personal microwaves and refrigerators have been removed from classrooms and offices unless needed for instructional or medical requirements.
- Maintenance staff and the superintendent will review all monthly utility bills for accuracy and to monitor energy usage.

Purchase Orders

- All expenditure requisitions must be approved by Superintendent/Designee before a Purchase Order Number will be issued.
- All requests for expenditures must be for expenditures included in an activity's approved budget.

SBDM Allocations

- All funds will be frozen effective September 1, 2009. Schools have 10 student days to make requisitions for expenditures. Status of district budget in January will determine if funds will be unfrozen for the second semester.

Title Program Budgets

- No Title program will be permitted to exceed its allocated budget as determined by its stated allocation. All changes to the proposed budgets must be approved by the Program Director and Superintendent.

Special Education

- All projected expenditures must be included in the proposed Special Education budgets. This includes VI-B, VI-B Preschool, and General Fund. All request for expenditures not included in the original proposed budget must be approved by the Superintendent and Board of Education.
- Student enrollment populations in Special Education programs will be monitored on a daily basis.
- The Director of Special Education will apprise the Superintendent of all population changes and the resulting need for reassignment of students to prevent the need to employ additional personnel throughout the year.

Salary Increases

- Provide salary increases that are equal to the State-Mandated % amount only.

Food Service Program

- Proposed monthly budgets for operation will be developed for review and approval by the District Food Service Coordinator and the Superintendent.
- All monthly reports will be reviewed by the District Food Service Coordinator prior to submission to KDE.
- All students will be required to submit an application for Free/Reduced Price Lunch/Breakfast, regardless of financial status.
- All purchases of food staples and/or supplies necessary for the operation of the food service program will be made from the approved Purchasing Cooperatives (UPC & KEDC) unless those entities do not provide the item(s) needed.
- Refer to Outline of Food Service Cost Reduction listing developed by the District Food Service Director (Ms. Sawma) and the district Food Service Coordination (Mr. Bill Voelker).

Substitutes

- All requests for substitutes, except normal sick leave, must be approved by the Superintendent in advance.
- No substitutes will be used for Instructional Aides except for Special Education and Preschool Aides.
- All substitutes needed for school business absences will be paid by the school or program to which the employee is assigned.

Questions regarding this report should be directed to the Superintendent, Gary Rye at (859) 491-6565 or by mail at 200 Clay Street, Dayton, Kentucky 41074.

DAYTON INDEPENDENT SCHOOL DISTRICT STATEMENT OF NET ASSETS June 30, 2008

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ -	\$ 2,764	\$ 2,764
Receivables			
Taxes	92,886	-	92,886
Accounts	11,012	-	11,012
Intergovernmental	183,345	25,827	209,172
Other - Local	-	-	-
Inventories	-	1,299	1,299
Prepaid insurance	32,820	-	32,820
Total current assets	<u>320,063</u>	<u>29,890</u>	<u>349,953</u>
Capital assets not being depreciated	160,725	-	160,725
Capital assets, net of accumulated depreciation	<u>4,451,950</u>	<u>95,325</u>	<u>4,547,275</u>
Total assets	<u>4,932,738</u>	<u>125,215</u>	<u>5,057,953</u>
LIABILITIES			
Current Liabilities			
Fund cash overdraft	17,216	-	17,216
Accounts payable	22,416	8,984	31,400
Accrued salaries and benefits	53,712	-	53,712
Accrued interest payable	15,550	-	15,550
Deferred revenue	2,531	-	2,531
Bonds payable and capital leases-due within one year	<u>385,834</u>	<u>-</u>	<u>385,834</u>
Total current liabilities	<u>497,259</u>	<u>8,984</u>	<u>506,243</u>
Noncurrent Liabilities			
Accrued sick leave	254,347	-	254,347
Bonds payable and capital leases-due in more than one year	<u>2,208,322</u>	<u>-</u>	<u>2,208,322</u>
Total noncurrent liabilities	<u>2,462,669</u>	<u>-</u>	<u>2,462,669</u>
Total liabilities	<u>2,959,928</u>	<u>8,984</u>	<u>2,968,912</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,018,519	95,325	2,113,844
Restricted for:			
Capital projects	153,457	-	153,457
Debt service	52	-	52
Unrestricted	<u>(199,218)</u>	<u>20,906</u>	<u>(178,312)</u>
Total net assets	<u>\$ 1,972,810</u>	<u>\$ 116,231</u>	<u>\$ 2,089,041</u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$ 5,901,719	\$ -	2,712,140	\$ -	(3,189,579)	\$ -	(3,189,579)
Support services:							
Student	394,467	-	40,974	-	(353,493)	-	(353,493)
Instruction staff	413,215	-	26,445	-	(386,770)	-	(386,770)
District administrative	421,438	-	23,768	-	(397,670)	-	(397,670)
School administrative	526,805	-	53,782	-	(473,023)	-	(473,023)
Business	308,832	-	21,411	-	(287,421)	-	(287,421)
Plant operation and maintenance	862,652	-	31,160	-	(831,492)	-	(831,492)
Student transportation	156,083	-	7,328	-	(148,755)	-	(148,755)
Community service activities	132,186	-	-	-	(132,186)	-	(132,186)
Other	-	-	-	-	-	-	-
Interest on long-term debt	135,446	-	-	-	(135,446)	-	(135,446)
Total governmental activities	9,252,843	-	2,917,008	-	(6,335,835)	-	(6,335,835)
Business-type Activities							
Food service	544,152	88,837	378,623	-	-	(76,692)	(76,692)
Day Care	116,696	57,861	43,461	-	-	(15,374)	(15,374)
Total business-type activities	660,848	146,698	422,084	-	-	(92,066)	(92,066)
Total school district	\$ 9,913,691	\$ 146,698	\$ 3,339,092	\$ -	(6,335,835)	(92,066)	(6,427,901)
General Revenues							
Property taxes					1,304,226	-	1,304,226
Motor vehicle taxes					149,437	-	149,437
Investment earnings					28,870	-	28,870
State aid formula grants					4,926,335	-	4,926,335
Miscellaneous					52,112	3,944	56,056
Transfers					(96,965)	96,965	-
Total general revenues and transfers					6,364,015	100,909	6,464,924
Change in net assets					28,180	8,843	37,023
Net assets - beginning					1,944,630	107,388	2,052,018
Net assets - ending					\$ 1,972,810	\$ 116,231	\$ 2,089,041

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Special Revenue	Non-major Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 127,724	\$ 127,724
Receivables				
Taxes	92,886	-	-	92,886
Accounts	11,012	-	-	11,012
Intergovernmental	51,254	132,091	-	183,345
Other local	-	-	-	-
Prepaid insurance	7,035	-	25,785	32,820
Total assets	<u>\$ 162,187</u>	<u>\$ 132,091</u>	<u>\$ 153,509</u>	<u>\$ 447,787</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Fund cash overdraft	14,979	129,961	-	144,940
Accounts payable	22,416	-	-	22,416
Accrued salaries and benefits	53,712	-	-	53,712
Deferred revenue	-	2,531	-	2,531
Total liabilities	<u>91,107</u>	<u>132,492</u>	<u>-</u>	<u>223,599</u>
Fund Balances				
Reserved for:				
Prepaid expenses	\$ 7,035	\$ -	\$ 25,785	\$ 32,820
Accrued sick leave	50,000	-	-	50,000
Capital projects	-	-	127,672	127,672
Debt service	-	-	52	52
Unreserved	14,045	(401)	-	13,644
Total fund balances	<u>71,080</u>	<u>(401)</u>	<u>153,509</u>	<u>224,188</u>
Total liabilities and fund balances	<u>\$ 162,187</u>	<u>\$ 132,091</u>	<u>\$ 153,509</u>	<u>\$ 447,787</u>
Reconciliation to the Statement of Net Assets:				
Total governmental fund balances				\$ 224,188
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:				
	Cost	9,886,000		
	Accumulated depreciation	<u>(5,273,325)</u>		4,612,675
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in government funds:				
	Debt	(2,594,156)		
	Accrued sick leave	<u>(254,347)</u>		(2,848,503)
Accrued interest on long-term debt				<u>(15,550)</u>
Total net assets - governmental activities				<u>\$ 1,972,810</u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	General Fund	Special Revenue	Non-major Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources				
Property taxes	\$ 1,223,201	\$ -	\$ 81,025	\$ 1,304,226
Motor vehicle taxes	149,437	-	-	149,437
Earnings on investments	28,815	-	55	28,870
Other local sources	28,264	(4,226)	-	24,038
State sources				
SEEK	4,638,997	-	287,338	4,926,335
Other	51,349	563,054	164,004	778,407
Federal - indirect	-	969,650	-	969,650
Other revenues	28,074	-	-	28,074
On behalf payments - state	1,168,951	-	-	1,168,951
Total revenues	<u>7,317,088</u>	<u>1,528,478</u>	<u>532,422</u>	<u>9,377,988</u>
Expenditures				
Instruction	4,597,213	1,214,001	-	5,811,214
Support services				
Student	391,814	-	-	391,814
Instruction staff	270,425	142,790	-	413,215
District administration	401,324	-	20,072	421,396
School administration	525,695	-	-	525,695
Business	288,140	41,880	-	330,020
Plant operation and maintenance	783,800	-	74,705	858,505
Student transportation	123,207	11,474	-	134,681
Community service activities	2,010	130,176	-	132,186
Debt service				
Principal	20,922	-	323,000	343,922
Interest	9,213	-	110,683	119,896
Capital outlay	90,989	-	-	90,989
Total expenditures	<u>7,504,752</u>	<u>1,540,321</u>	<u>528,460</u>	<u>9,573,533</u>
Excess (deficit) of revenues over/(under) expenditures	<u>(187,664)</u>	<u>(11,843)</u>	<u>3,962</u>	<u>(195,545)</u>
Other Financing Sources (Uses)				
Lease proceeds	90,989	-	-	90,989
Operating transfers in	-	11,443	240,724	252,167
Operating transfers out	(108,408)	-	(240,724)	(349,132)
Total other financing sources (uses)	<u>(17,419)</u>	<u>11,443</u>	<u>-</u>	<u>(5,976)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(205,083)</u>	<u>(400)</u>	<u>3,962</u>	<u>(201,521)</u>
Fund balance, July 1, 2007	<u>276,163</u>	<u>-</u>	<u>149,547</u>	<u>425,710</u>
Fund balance, June 30, 2008	<u>\$ 71,080</u>	<u>\$ (400)</u>	<u>\$ 153,509</u>	<u>\$ 224,189</u>

See accompanying notes to basic financial statements.

<p>DAYTON INDEPENDENT SCHOOL DISTRICT RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2008</p>

Amounts reported for governmental activities in the statement of net assets are different because:

Net change in fund balance - total governmental funds	\$ (201,521)
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$206,639) exceeds capital outlay (\$147,325) in the current period.	(59,314)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and the issuance of new debt is an income source in the governmental funds and increases long-term liabilities in the statements of net assets.	275,795
Accrued interest on long-term debt is reported in the government wide financial statements, but not reported in governmental funds.	(15,550)
Accrued long-term sick leave change.	<u>28,770</u>
Change in net assets of governmental activities.	\$ <u><u>28,180</u></u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

ASSETS	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ -	\$ 23,380	\$ 23,380
Other receivables	19,317	6,510	25,827
Inventories	1,299	-	1,299
Total current assets	<u>20,616</u>	<u>29,890</u>	<u>50,506</u>
Noncurrent Assets			
Bldgs and improvements	117,379	47,900	165,279
Machinery and equipment	142,501	698	143,199
Less: Accumulated depreciation	(176,799)	(36,354)	(213,153)
Total noncurrent assets	<u>83,081</u>	<u>12,244</u>	<u>95,325</u>
Total assets	<u>103,697</u>	<u>42,134</u>	<u>145,831</u>
LIABILITIES			
Current Liabilities			
Fund cash overdraft	20,616	-	20,616
Accounts payable	-	8,984	8,984
Total current liabilities	<u>20,616</u>	<u>8,984</u>	<u>29,600</u>
Noncurrent Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>20,616</u>	<u>8,984</u>	<u>29,600</u>
NET ASSETS			
Invested in capital assets, net of related debt	83,081	12,244	95,325
Restricted for:			
Other	-	-	-
Unrestricted	<u>-</u>	<u>20,906</u>	<u>20,906</u>
Total net assets	<u>\$ 83,081</u>	<u>\$ 33,150</u>	<u>\$ 116,231</u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Food Service Fund	Day Care Fund	Total
Operating Revenues			
Food service sales	\$ 88,837	\$ -	\$ 88,837
Other operating revenues	-	57,861	57,861
Total operating revenues	<u>88,837</u>	<u>57,861</u>	<u>146,698</u>
Operating Expenses			
Salaries and wages	194,950	71,912	266,862
Employee benefits	74,757	19,491	94,248
Purchased professional and technical services	2,497	-	2,497
Purchased property services	-	-	-
Other purchased services	1,579	826	2,405
Supplies and materials	266,395	11,146	277,541
Depreciation	3,882	1,098	4,980
Other operating expenses	92	12,223	12,315
Total operating expenses	<u>544,152</u>	<u>116,696</u>	<u>660,848</u>
Operating income (loss)	<u>(455,315)</u>	<u>(58,835)</u>	<u>(514,150)</u>
Nonoperating revenues (expenses)			
Federal grants	350,141	-	350,141
State grants	4,458	34,858	39,316
Contributions/Donations	-	3,944	3,944
Transfers	96,965	-	96,965
On behalf payments	24,024	8,603	32,627
Total nonoperating revenues (expenses)	<u>475,588</u>	<u>47,405</u>	<u>522,993</u>
Net income (loss)	<u>20,273</u>	<u>(11,430)</u>	<u>8,843</u>
Total net assets, July 1, 2007	62,808	\$ 44,580	\$ 107,388
Total net assets, June 30, 2008	<u>\$ 83,081</u>	<u>\$ 33,150</u>	<u>\$ 116,231</u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT STATEMENT OF CASH FLOWS PROPRIETARY FUNDS Year Ended June 30, 2008
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	Food Service Fund	Day Care Fund	Total
Cash Flows from Operating Activities			
Cash received from lunchroom sales	\$ 88,837	\$ -	\$ 88,837
Cash received from other activities	-	57,861	57,861
Cash payments to employees for services	(245,683)	(71,912)	(317,595)
Cash payments to suppliers for goods and services	(267,856)	(12,344)	(280,200)
Cash payments for other operating activities	(92)	(13,757)	(13,849)
Net cash from operating activities	<u>(424,794)</u>	<u>(40,152)</u>	<u>(464,946)</u>
Cash Flows from Capital Financing Activities			
Acquisition of capital assets	(24,155)	-	(24,155)
Net cash from capital financing activities	<u>(24,155)</u>	<u>-</u>	<u>(24,155)</u>
Cash Flows from Noncapital Financing Activities			
Nonoperating grants received	346,206	33,784	379,990
Contributions	-	3,944	3,944
Transfers in	96,965	-	96,965
Transfers out	-	-	-
Net cash from noncapital financing activities	<u>443,171</u>	<u>37,728</u>	<u>480,899</u>
Net increase in cash and cash equivalents	(5,778)	(2,424)	(8,202)
Cash and cash equivalents - beginning	(14,838)	25,804	10,966
Cash and cash equivalents - ending	<u>\$ (20,616)</u>	<u>\$ 23,380</u>	<u>\$ 2,764</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (431,291)	\$ (50,233)	\$ (481,524)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	3,882	1,097	4,979
Changes in assets and liabilities:			
Inventory	2,615	-	2,615
Accounts payable	-	8,984	8,984
Net Cash Provided by Operating Activities	<u>\$ (424,794)</u>	<u>\$ (40,152)</u>	<u>\$ (464,946)</u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

ASSETS	<u>Trust/Agency Fund</u>
Current Assets	
Cash and cash equivalents	\$ 132,415
Accounts receivable	3,829
Total current assets	<u>136,244</u>
Total assets	<u>136,244</u>
LIABILITIES	
Accounts payable	2,187
Due to student groups	134,057
Total liabilities	<u>136,244</u>
NET ASSETS	\$ <u><u>-</u></u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Dayton Independent School District, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the District are described below.

REPORTING ENTITY

The Dayton Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Dayton Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Dayton Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. These funds are not significant to the operations of the District.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Dayton Independent School District Finance Corporation - On April 19, 1989, the Dayton Independent Board of Education resolved to authorize the establishment of the Dayton Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Dayton Independent School District also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

DAYTON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2008

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identified the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

1. Governmental Fund Types

(A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

(B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. This is a major fund of the District.

DAYTON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2008

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

(D) Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

2. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service Fund is a major fund.
- B. The Day Care Fund is used to account for school age childcare and teen-mom daycare which is for teachers and students who are parents.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

3. Fiduciary Fund Type (Agency Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008
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the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property in the District. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.901 per \$100 valuation for real property, \$.901 per \$100 valuation for business personal property and \$.859 per \$100 valuation for motor vehicles.

Capital Assets

General capital assets are those not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in their respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values

DAYTON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2008

as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	25-50 years
Land improvements	20 years
Technology equipment	5-10 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	20 years
Musical instruments	10 years
Grounds equipment	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Principles

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008
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Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

The Food Service Fund inventories are stated at cost or at fair market value on the date of donation for donated commodities .

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

As of June 30, 2008, the long-term debt of the financial reporting entity consisted of the following:

Capital lease obligations	
Current portion	\$ 385,834
Non-current portion	2,208,322
	<u>\$ 2,594,156</u>

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for fixed assets, accrued sick leave and debt service reserves.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the school and charges for day care services provided to parents. Expenses are primarily payroll, food costs, and supply purchases. Non-operating revenues are those revenues not directly from the primary activity, such as grants or transfers.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Restricted Revenues

When there are restricted and unrestricted revenues in a program, the District's policy is the restricted revenues are expended first.

NOTE B – DEPOSITS AND INVESTMENTS

As of June 30, 2008, the District held no investments:

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2008, the District's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance.

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008
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NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Not being depreciated:				
Land	\$ 160,725	\$ -	\$ -	\$ 160,725
Construction in progress	-	-	-	-
	<u>160,725</u>	<u>-</u>	<u>-</u>	<u>160,725</u>
Other capital assets:				
Land Improvements	99,757	-	-	99,757
Buildings & Building Improvements	7,914,259	-	-	7,914,259
Technology Equipment	1,004,487	54,265	-	1,058,752
Vehicles	398,486	92,000	-	490,486
General Equipment	160,961	1,060	-	162,021
TOTALS AT HISTORICAL COST	<u>9,738,675</u>	<u>147,325</u>	<u>-</u>	<u>9,886,000</u>
LESS ACCUMULATED DEPRECIATION:				
Land Improvements	57,136	2,368	-	59,504
Buildings & Building Improvements	3,704,839	148,747	-	3,853,586
Technology Equipment	901,631	24,112	-	925,743
Vehicles	276,827	24,502	-	301,329
General Equipment	126,253	6,910	-	133,163
TOTAL ACCUMULATED DEPRECIATION	<u>5,066,686</u>	<u>206,639</u>	<u>-</u>	<u>5,273,325</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 4,671,989</u>	<u>\$ (59,314)</u>	<u>\$ -</u>	<u>\$ 4,612,675</u>
BUSINESS-TYPE ACTIVITIES				
Buildings & Building Improvements	\$ 165,279	\$ -	\$ -	\$ 165,279
Technology Equipment	1,848	-	-	1,848
General Equipment	117,196	24,155	-	141,351
TOTALS AT HISTORIC COST	<u>284,323</u>	<u>24,155</u>	<u>-</u>	<u>308,478</u>
LESS ACCUMULATED DEPRECIATION:				
Buildings & Building Improvements	92,481	3,306	-	95,787
Technology Equipment	1,441	139	-	1,580
General Equipment	114,252	1,534	-	115,786
TOTAL ACCUMULATED DEPRECIATION	<u>208,174</u>	<u>4,979</u>	<u>-</u>	<u>213,153</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 76,149</u>	<u>\$ 19,176</u>	<u>\$ -</u>	<u>\$ 95,325</u>

Depreciation expense was charged to governmental functions as follows:

Instructional	\$ 173,540
Student Support Services	2,653
District Administration	2,112
School Administration	1,110
Business Support Services	1,675
Plant Operation & Maintenance	4,147
Student Transportation	21,402
TOTAL	<u>\$ 206,639</u>

DAYTON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Dayton Independent School District Finance Corporation aggregating \$2,165,000.

The original amount of each issue, the issue date, and interest rates are summarized below.

<u>Issue Date</u>	<u>Principal</u>	<u>Rates</u>
March 1, 1998	\$ 1,590,000	3.90% - 4.65%
June 1, 1999	\$ 1,865,000	3.85% - 4.80%
November 1, 2004	\$ 645,000	2.00% - 3.75%

The District, through the General Fund and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by Dayton Independent School District Finance Corporation to construct school facilities. The district has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District Finance Corporation has issued their bonds in connection with the Kentucky School Facilities Construction Commission (the Commission). Although the Board, under the lease arrangement is obligated to pay the full amount of the lease obligation, the Board has entered into the obligation in reliance upon a participation agreement by and between the Board and the Commission, whereby the Commission has agreed to pay annually a set percentage of each obligation.

A summary of obligations under capital leases is as follows:

	<u>7/1/07</u>	<u>Issued</u>	<u>Retired</u>	<u>6/30/08</u>	<u>Due within One Year</u>
Bonds under capital lease	\$ 2,465,000	\$ -	\$ (300,000)	\$ 2,165,000	\$ 315,000
KISTA leases	351,442	90,989	(43,922)	398,509	46,163
Computer lease	53,510	-	(22,863)	30,647	24,671
	<u>\$ 2,869,952</u>	<u>\$ 90,989</u>	<u>\$ (366,785)</u>	<u>\$ 2,594,156</u>	<u>\$ 385,834</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, at June 30, 2008 for debt service (principal and interest) are as follows:

DAYTON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2008

Year	Bonds		Interest		Total
	Dayton	K.S.F.C.C.	Dayton	K.S.F.C.C.	
2008-2009	\$ 188,099	\$ 126,901	\$ 54,877	\$ 37,103	\$ 406,980
2009-2010	185,633	119,367	47,218	31,782	384,000
2010-2011	158,142	96,858	40,074	27,067	322,141
2011-2012	98,867	61,133	34,868	23,657	218,525
2012-2013	106,188	63,812	30,814	20,981	221,795
2013-2014	108,344	66,656	26,416	18,136	219,552
2014-2015	110,342	69,658	21,810	15,135	216,945
2015-2016	82,100	57,900	17,097	11,943	169,040
2016-2017	89,321	60,679	13,156	9,164	172,320
2017-2018	91,409	63,591	8,869	6,251	170,120
2018-2019	93,357	66,643	4,481	3,199	167,680
	<u>\$ 1,311,802</u>	<u>\$ 853,198</u>	<u>\$ 299,680</u>	<u>\$ 204,418</u>	<u>\$ 2,669,098</u>

Kentucky Interlocal School Transportation Association (KISTA)

In September, October, and December 1999, and January 2004, 2006 and 2008 the Board entered into lease agreements with KISTA for the lease of school buses and financing of various capital improvements. The leases are renewable annually and can be canceled by the Board. Over the ten year lease terms, the Board will pay principal and interest in the amount of \$193,093, \$283,244, \$107,122, \$78,837, \$95,014, and \$108,728. Interest rates vary from 3.00% to 5.70%.

The minimum future rental payments as of June 30, 2008 are as follows:

	09/01/99	10/01/99	12/01/99	01/01/04	01/01/06	01/01/08	Total
2009	\$ 9,252	\$ 14,396	\$ 10,510	\$ 7,882	\$ 9,487	\$ 12,637	\$ 64,164
2010	9,995	14,981	-	7,888	9,509	12,642	55,015
2011	9,686	14,512	-	7,872	9,516	10,874	52,460
2012	9,362	14,036	-	7,891	9,505	10,850	51,644
2013	10,038	14,558	-	6,570	9,485	10,853	51,504
2014-2018	48,310	72,075	-	6,562	25,330	50,872	203,149
2019-2021	9,504	14,791	-	-	-	-	24,295
	<u>106,147</u>	<u>159,349</u>	<u>10,510</u>	<u>44,665</u>	<u>72,832</u>	<u>108,728</u>	<u>502,231</u>
Less amounts representing interest	<u>(28,147)</u>	<u>(42,349)</u>	<u>(510)</u>	<u>(4,473)</u>	<u>(10,504)</u>	<u>(17,739)</u>	<u>(103,722)</u>
Total	<u>\$ 78,000</u>	<u>\$ 117,000</u>	<u>\$ 10,000</u>	<u>\$ 40,192</u>	<u>\$ 62,328</u>	<u>\$ 90,989</u>	<u>\$ 398,509</u>

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008
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Leases

The Board leases copiers with varying periods and monthly payments.

Minimum future rentals as of June 30, 2008 are as follows:

Year Ending June 30	Copier Leases	Computer Leases
2009	\$ 46,552	\$ 27,095
2010	44,495	6,448
2011	44,308	-
2012	18,136	-
2013	3,190	-
	<u>\$ 156,681</u>	<u>\$ 33,543</u>

The computer leases are deemed to be a lease-purchase arrangement, whereby the total computer costs are capitalized in the entity-wide financial statements, with a related liability. The above lease payments consist of \$2,896 in interest costs.

NOTE E – ACCRUED SICK LEAVE

Employees earn 10 days of sick leave each year and can accrue them without limitations. In addition, two emergency days and one personal day not used at the end of the year can be added to sick days. Upon retirement, (with 27 years of service), unused sick days are paid at the rate of 30% of daily salary. At June 30, 2008, this liability was \$254,347 which is recorded as a long-term liability on the district-wide financial statements. The amount estimated as accrued leave for eligible future retirees totaled \$50,000 and is shown as a reservation of fund balance in the governmental funds financial statements.

NOTE F – RETIREMENT PLANS

Plan Description and Funding Policy

Certified employees are covered under the Kentucky Teachers Retirement Systems (KTRS), a multiple employer, public employees retirement system (PERS). Funding for the plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the federal program for any salaries paid by that program at a rate of 13.105%.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a District contribution of 16.17% of the employee's total compensation subject to contribution.

The plans provide for retirement, disability, and death benefits to plan members, and under certain circumstances to plan member beneficiaries.

Participating employers are required to contribute at an actuarially determined rate. Normal contributions and past service rates are determined by the Board of the plans based upon an annual valuation.

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008
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The District's contribution requirement for CERS for the year ended June 30, 2008, was \$210,421, \$160,473 in 2007 and \$130,818 in 2006. The District has a contribution requirement to KTRS of \$78,623 for 2008, \$76,851 for 2007 and \$68,285 for 2006. The contributions represented 100% of the required contributions.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The retirement systems issued publicly available annual financial reports that include financial statements and required supplementary information. The reports may be obtained from the retirement systems by contacting their operating headquarters in Frankfort, Kentucky.

NOTE G – CONTINGENCIES

The District receives funding from the federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE H – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE I – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District participates in the Kentucky School Boards Insurance Trust. This public entity risk pool operates as common risk management and insurance programs for school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008
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NOTE J – DEFICIT OPERATING/FUND BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance or net assets:

General Fund	\$	(205,083)
Special Revenue	\$	(400)
SEEK Capital Outlay Fund	\$	(6,757)
Lincoln Elementary School		
Activity Fund	\$	(462)
Debt Service Fund	\$	(227)
Day Care Fund	\$	(11,430)

NOTE K – INTERFUND TRANSACTIONS

The following transfers were made during the year.

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 11,443
Operating	General	Food Service	Operations	\$ 96,965

NOTE L – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2008 net income (loss) reported in the District's Annual Financial Report with that shown in the accompanying financial statements:

	Food Service Fund	Day Care Fund
Net Income (Loss) as reported to the Department of Education	\$ (94,350)	\$ (7,858)
Adjustment to cash, accounts receivable, and accounts payable	96,965	(2,474)
Adjustment to inventory	(2,615)	-
Capital purchases	24,155	-
Depreciation	(3,882)	(1,098)
Net Income (Loss) as reported in accompanying financial statements	<u>\$ 20,273</u>	<u>\$ (11,430)</u>

DAYTON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS Year Ended June 30, 2008
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The following is a reconciliation of the June 30, 2008 excess revenues and other sources over expenditures and other uses reported in the District's Annual Financial Report with that shown in the accompanying financial statements:

	General Fund	Capital Outlay
Excess (Deficiency) of Revenue over Expenditures as reported to the Department of Education	\$ (165,686)	\$ (32,543)
Adjustments to cash - funding lunch program deficit	(96,965)	-
Additional accounts receivable	70,370	-
Prepaid insurance	7,035	25,785
Adjustments to accounts payable	(19,837)	-
Excess (Deficiency) of revenue over expenditures as reported in accompanying financial statements	\$ <u>(205,083)</u>	\$ <u>(6,758)</u>

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DAYTON INDEPENDENT SCHOOL DISTRICT STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND Year Ended June 30, 2008
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	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ 1,341,242	\$ 1,341,242	\$ 1,372,638	\$ 31,396
Earnings on investments	45,000	45,000	28,815	(16,185)
Other local sources	8,700	8,700	28,264	19,564
State sources	4,661,816	4,661,816	4,690,346	28,530
Other revenues	14,000	14,000	28,074	14,074
On-behalf payments	-	-	1,168,951	1,168,951
TOTAL REVENUES	<u>6,070,758</u>	<u>6,070,758</u>	<u>7,317,088</u>	<u>1,246,330</u>
EXPENDITURES:				
Instructional	3,581,055	3,580,898	4,597,213	(1,016,315)
Student Support Services	321,334	321,334	391,814	(70,480)
Staff Support Services	261,389	261,389	270,425	(9,036)
District Administration	379,555	379,555	401,324	(21,769)
School Administration	477,446	477,446	525,695	(48,249)
Business Support Services	272,123	274,086	288,140	(14,054)
Plant Operation & Maintenance	728,494	726,688	783,800	(57,112)
Student Transportation	113,366	113,366	123,207	(9,841)
Community Service Operations	2,530	2,530	2,010	520
Debt Service - Other	44,630	44,630	30,135	14,495
Capital Outlay	-	-	90,989	(90,989)
Contingency	175,836	175,836	-	175,836
TOTAL EXPENDITURES	<u>6,357,758</u>	<u>6,357,758</u>	<u>7,504,752</u>	<u>(1,146,994)</u>
Excess (deficit) of revenues over expenditures	<u>(287,000)</u>	<u>(287,000)</u>	<u>(187,664)</u>	<u>99,336</u>
Other Financing Sources (Uses)				
Lease proceeds	-	-	90,989	90,989
Operating transfers in	-	-	-	-
Operating transfers out	<u>(13,000)</u>	<u>(13,000)</u>	<u>(108,408)</u>	<u>(95,408)</u>
Total other financing sources (uses)	<u>(13,000)</u>	<u>(13,000)</u>	<u>(17,419)</u>	<u>(4,419)</u>
Net change in fund balance	(300,000)	(300,000)	(205,083)	94,917
Fund balance, July 1, 2007	<u>300,000</u>	<u>300,000</u>	<u>276,163</u>	<u>(23,837)</u>
Fund balance, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,080</u>	<u>\$ 71,080</u>

Note: On-behalf payments totaling \$604,601 are not budgetary accounts and are equally different in revenues and expenditures.

The lease purchase of a school bus was not budgeted in the amount of \$90,989.

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - SPECIAL REVENUE FUND Year Ended June 30, 2008
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	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	\$ -	\$ 1,500	\$ (4,226)	\$ (5,726)
State Sources	547,201	546,729	563,054	16,325
Federal Sources	955,053	831,317	969,650	138,333
TOTAL REVENUES	1,502,254	1,379,546	1,528,478	148,932
EXPENDITURES:				
Instructional	1,187,262	1,063,304	1,214,001	(150,697)
Student Support Services	-	-	-	-
Staff Support Services	146,705	147,955	142,790	5,165
District Administration Support	-	-	-	-
Business Support Services	37,795	37,795	41,880	(4,085)
Plant Operation and Management	2,000	2,000	-	2,000
Student Transportation	5,082	5,082	11,474	(6,392)
Community Services	130,410	130,410	130,176	234
Debt Service	6,000	6,000	-	6,000
Contingency	-	-	-	-
TOTAL EXPENDITURES	1,515,254	1,392,546	1,540,321	(147,775)
EXCESS (DEFICIENCY) OF REVENUES OVER/(UNDER) EXPENDITURES	(13,000)	(13,000)	(11,843)	1,157
OTHER FINANCING SOURCES (USES):				
Operating transfers in	13,000	13,000	11,443	(1,557)
Operating transfers out (debt service)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	13,000	13,000	11,443	(1,557)
NET CHANGE IN FUND BALANCE	-	-	(400)	(400)
FUND BALANCES-BEGINNING	-	-	-	-
FUND BALANCES-ENDING	\$ -	\$ -	\$ (400)	\$ (400)

SUPPLEMENTAL SCHEDULES AND INFORMATION

DAYTON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2008

	Capital Project Funds				Total
	Construction Fund	FSPK Building Fund	SEEK Capital Outlay Fund	Debt Service Fund	Non-major Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,823	\$ 121,765	\$ 1,084	\$ 52	\$ 127,724
Prepaid insurance	-	-	25,785	-	25,785
Total assets	<u>\$ 4,823</u>	<u>\$ 121,765</u>	<u>\$ 26,869</u>	<u>\$ 52</u>	<u>\$ 153,509</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances					
Reserved for:					
Prepaid expenses	-	-	25,785	-	25,785
Capital projects	4,823	121,765	1,084	-	127,672
Debt service	-	-	-	52	52
Unreserved	-	-	-	-	-
Total fund balances	<u>\$ 4,823</u>	<u>\$ 121,765</u>	<u>\$ 26,869</u>	<u>\$ 52</u>	<u>\$ 153,509</u>
Total liabilities and fund balances	<u>\$ 4,823</u>	<u>\$ 121,765</u>	<u>\$ 26,869</u>	<u>\$ 52</u>	<u>\$ 153,509</u>

See accompanying notes to basic financial statements.

DAYTON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	Capital Project Funds				Total	
Revenues	Construction Fund	FSPK Building Fund	SEEK Capital Outlay Fund	Debt Service Fund	Non-major Governmental Funds	
From local sources						
Property taxes	\$ -	\$ 81,025	\$ -	\$ -	\$ 81,025	
Earnings on investments	-	-	-	55	55	
State sources						
SEEK	-	199,318	88,020	-	287,338	
Other	-	-	-	164,004	164,004	
Total revenues	-	280,343	88,020	164,059	532,422	
Expenditures						
Purchased property services	-	-	20,072	-	20,072	
Plant operation and maintenance	-	-	74,705	-	74,705	
Debt service						
Principal	-	197,683	-	125,317	323,000	
Interest	-	71,996	-	38,687	110,683	
Other	-	-	-	-	-	
Total expenditures	-	269,679	94,777	164,004	528,460	
Excess (deficit) of revenues over expenditures	-	10,664	(6,757)	55	3,962	
Other Financing Sources (Uses)						
Operating transfers in	-	282	-	240,442	240,724	
Operating transfers out	-	-	-	(240,724)	(240,724)	
Total other financing sources (uses)	-	282	-	(282)	-	
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	10,946	(6,757)	(227)	3,962	
Fund balance, July 1, 2007	4,823	110,819	33,626	279	149,547	
Fund balance, June 30, 2008	<u>\$ 4,823</u>	<u>\$ 121,765</u>	<u>\$ 26,869</u>	<u>\$ 52</u>	<u>\$ 153,509</u>	

DAYTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
DAYTON HIGH SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2008

Fund Accounts	Cash Balances July 1, 2007	Receipts	Disbursements	Net Transfers	Cash Balances June 30, 2008	Accounts Receivable June 30, 2008	Accounts Payable June 30, 2008	Fund Balances June 30, 2008
Annual	\$ 4,592	\$ 1,327	\$ 4,401	\$	\$ 1,518	\$	\$	\$ 1,518
Art Club	258	10	-	-	268	-	-	268
Band	34	-	-	-	34	-	-	34
Class of 2008	221	1,275	1,283	-	213	-	-	213
Class of 2009	397	5,833	5,932	-	298	-	-	298
Class of 2010	264	764	149	-	879	316	-	1,195
Class of 2011	-	181	153	-	28	-	-	28
Coke	2,439	2,017	1,631	-	2,825	-	(80)	2,745
Dayton Textbook Fund	-	4,842	4,842	-	-	-	-	-
English Department	190	108	464	-	80	-	-	80
FBLA	611	-	-	-	190	-	-	190
FCCLA	938	-	-	-	611	-	-	611
Green Zone	183	188	147	-	979	-	-	979
High School Student Council	1,037	-	-	-	183	-	-	183
Home Economics	645	553	1,196	(146)	248	-	-	248
Industrial Arts	2,166	967	1,140	-	472	-	-	472
Lance	1,217	-	-	-	2,166	-	-	2,166
Library	2,496	765	102	-	1,214	-	-	1,214
Math Department	23	-	208	-	3,053	-	-	3,053
Middle School Book Store	1,012	361	274	-	23	-	-	23
Middle School Science Club	89	-	77	-	1,099	-	-	1,099
Middle School Student Council	331	315	477	-	12	-	-	12
National Honor Society	1,420	4,500	1,566	-	169	-	-	169
Postage and Stationery	6,021	12,743	16,803	35	4,354	-	-	4,354
Principals Account	207	5,056	4,376	-	1,996	1,443	(140)	3,299
Project Prom	27,596	13,168	9,766	500	887	-	-	887
Scholarships	3,021	967	-	-	31,498	870	-	32,368
Science Dept.	704	12,770	10,863	-	3,988	-	-	3,988
Senior Trip	34	1,394	1,065	(100)	2,611	-	-	2,611
Seventh Grade Knights	158	4,330	4,224	160	263	-	-	263
Eighth Grade Titans	3,411	100	2,848	-	424	-	-	424
Senior Banquet	3,477	8,681	4,023	86	663	-	-	663
General	13,537	85,586	78,967	(3,636)	8,221	-	(94)	8,127
Athletics	10,100	20,984	19,471	2,483	16,520	-	-	16,520
Athletic FR - Football	985	6,309	5,221	-	14,096	-	-	13,748
Athletic FR - Volleyball	1,897	1,723	2,586	-	2,073	200	-	2,273
Athletic FR - Cross Country	2,971	6,669	6,883	-	1,034	-	-	1,034
Athletic FR - Cheerleading	6,115	19,049	24,613	3,369	2,757	-	(953)	1,804
Athletic FR - Boys Basketball	170	3,813	3,739	711	3,920	1,000	(572)	4,348
Athletic FR - Girls Basketball	3,960	2,809	4,292	-	955	-	-	955
Athletic FR - Softball	901	-	497	-	2,477	-	-	2,477
Athletic FR - Track	2,870	1,888	2,053	-	404	-	-	404
Athletic FR - Other	-	17,814	14,352	(3,462)	2,705	-	-	2,705
Athletic Tournaments	-	-	-	-	-	-	-	-
TOTALS	\$ 109,134	\$ 249,958	\$ 240,684	\$ -	\$ 118,408	\$ 3,829	\$ (2,187)	\$ 120,050

DAYTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
LINCOLN ELEMENTARY SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2008

Fund Accounts	Cash Balances July 1, 2007	Receipts	Disbursements	Cash Balances June 30, 2008	Accounts Receivable June 30, 2008	Accounts Payable June 30, 2008	Fund Balances June 30, 2008
Total Funds	\$ 14,469	\$ 49,216	\$ 49,678	\$ 14,007	\$ -	\$ -	\$ 14,007

DAYTON INDEPENDENT BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor/Pass- Through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Agriculture			
Food Distribution (non-cash transactions)	10.550	2017	\$ 18,144
Passed Through State Department of Education			
Child Nutrition Cluster			
National School Breakfast Program	* 10.553	7760005 07	78,758
National School Lunch Program	* 10.555	7750002 07	242,515
Summer Food Service Program for Children	* 10.559	7740023 06	28,868
			<u>350,141</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ <u>368,285</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
Title1-Grants to Local Educational Agencies	* 84.010	3100002 07	\$ 311,750
Special Education Cluster			
Grants to States (IDEA, Part B)	84.027	3810002 07	275,009
Preschool Grants (IDEA Preschool)	84.173	3800002 07	33,133
			<u>308,142</u>
Safe and Drug Free Schools and Communities (Title IV)	84.186	3410002 07	759
Safe and Drug Free Schools and Communities (Title IV)	84.186	3410002 06	5,874
21st Century Community Learning Centers	84.287	3400002 07	57,800
21st Century Community Learning Centers	84.287	3400002 06	145,788
21st Century Community Learning Centers	84.287	3400002 05	52,573
State Grants for Innovative Programs	84.298	3500002 06	1,378
State Grants for Innovative Programs	84.298	3500002 07	1,685
Education Technology State Grants (Ed Tech)	84.318	3210002 07	3,117
Improving Teacher Quality State Grants	* 84.367	3230002 06	87,924
Improving Teacher Quality State Grants	* 84.367	3230002 05	1,420
TOTAL DEPARTMENT OF EDUCATION			\$ <u>978,210</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u>1,346,495</u>

Notes to Schedule of Expenditures of Federal Awards.

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Food distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

At June 30, 2008, the Board had food commodities totaling \$13,423 in inventory.

* Denotes major federal program.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Members of the Board of Education
Dayton Independent School District
Dayton, Kentucky**

**Kentucky State Committee for School District Audits
Frankfort, Kentucky**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Dayton Independent School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District Audits in Appendixes I, II and III of the Independent Auditor's Contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Dayton Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Dayton Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Dayton Independent School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Dayton Independent School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Dayton Independent School District's financial statements that is more than inconsequential will not be prevented or detected by the Dayton Independent School District's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Dayton Independent School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the items 2008-1, 2008-2 and 2008-3 to be material weaknesses; as described in the accompanying schedule of findings and questioned costs.

Compliance and Other Matters

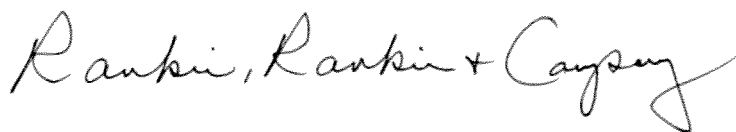
As part of obtaining reasonable assurance about whether Dayton Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract-State Audit Requirements that are required to be reported under state audit requirements.

We noted certain matters that we reported to management of Dayton Independent School District in a separate letter dated October 24, 2008

This report is intended solely for the information and use of management, others within the organization, Board Members, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
October 24, 2008**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

**Members of the Board of Education
Dayton Independent School District
Dayton, Kentucky**

**Kentucky State Committee for School District Audits
Frankfort, Kentucky**

Compliance

We have audited the compliance of Dayton Independent School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Dayton Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Dayton Independent School District's management. Our responsibility is to express an opinion on Dayton Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits in Appendixes I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dayton Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Dayton Independent School District's compliance with those requirements.

In our opinion, Dayton Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

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Internal Control Over Compliance

The management of Dayton Independent Board of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Dayton Independent Board of Education's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

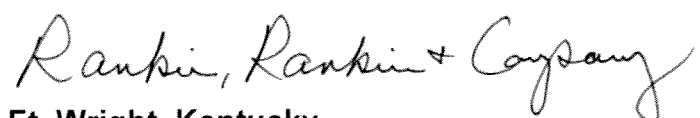
A control deficiency in a Board's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Board's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the members of the Dayton Independent Board of Education, others within the District, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

RANKIN, RANKIN & COMPANY



**Ft. Wright, Kentucky
October 24, 2008**

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DAYTON INDEPENDENT BOARD OF EDUCATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

NONE

DAYTON INDEPENDENT SCHOOL DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2008
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SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the District.
2. Material weaknesses relating to the audit of the financial statements of the District are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal awards programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance.
5. The auditor's report on compliance for the major federal award programs for the District expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:

<u>Program</u>	<u>CFDA No.</u>
Natiuonal School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Program	10.559
Title I	84.010
Improving Teacher Quality	84.367

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The District was determined to be a low-risk auditee.

FINDINGS-FINANCIAL STATEMENTS AUDIT

REFERENCE NUMBER 2008-01

FINANCIAL STATEMENT ADJUSTMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls over the application of transactions and the preparation of financial statements.

Condition: As part of the audit we noted that material adjustments were not identified by the District's internal control.

Cause: The District did not make necessary adjustments when closing the year.

DAYTON INDEPENDENT SCHOOL DISTRICT <i>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</i> Year Ended June 30, 2008

Effect: The design of the internal controls over financial reporting did not allow the District to identify necessary adjustments.

Recommendation: We recommend District management and financial personnel continue to develop internal control policies to ensure that necessary adjustments are made.

Management Response: Management will continue to provide training to ensure that necessary adjustments are made.

REFERENCE NUMBER 2008-02

OVERSIGHT OF SCHOOL LUNCH PROGRAM

Criteria: School Lunch Programs are prohibited by the Kentucky Department of Education from operating at a fund deficit.

Condition: The School Lunch Program operated at a \$96,965 deficit for the 2007-08 school year.

Cause: Monthly reporting did not detect the extent of the operating deficits until after the end of the school year.

Effect: The deficit was allowed to accumulate during the year without action being taken to try to make changes in the School Lunch Program operation to reduce the deficit.

Recommendation: The District should have each month sufficient monitoring procedures of the financial activity of the School Lunch Program.

Management Response: Management will report on and review monthly financial results and will make adjustments in School Lunch Program operation to avoid operating deficits to the extent possible.

REFERENCE NUMBER 2008-03

LACK OF SEGREGATION OF DUTIES

Criteria: The Dayton Independent School District is responsible for maintaining an adequate system of internal controls over financial activity.

Condition: The District is a small school system with limited personnel that hinders the ability to provide various segregation of duties.

Cause: Limited number of central office personnel.

Effect: The District's Treasurer is responsible for recording all financial transactions in the MUNIS system, preparing bank reconciliations, preparing daily deposits and processing accounts payable, with limited oversight.

DAYTON INDEPENDENT SCHOOL DISTRICT <i>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</i> Year Ended June 30, 2008

Recommendation: The District should, considering the number of personnel available, provide for, where possible, segregation of duties and sufficient supervisory oversight to promote a sufficient level of internal controls over financial reporting.

Management Response: The District is limited in the number of personnel available, and financial conditions limit the number of personnel available. The District did engage an outside CPA to assist in preparing bank reconciliations during 2007-08. It is uncertain if financial conditions will allow similar assistance in 2008-09. The District will have a new Treasurer effective October 31, 2008. Responsibilities will be reviewed at that time to try to promote greater segregation of duties and supervisory oversight to the extent possible.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

**Members of the Board of Education
Dayton Independent School District
Dayton, Kentucky**

**Kentucky State Committee for School District Audits
Frankfort, Kentucky**

In planning and performing our audit of the financial statements of Dayton Independent School District for the year ended June 30, 2008, we considered the Board's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 24, 2008 on the financial statements of the Dayton Independent Board of Education.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Payments to Coaches – Coaches who are otherwise employees of the District are paid their extra service compensation in two installments during their coaching season.

We recommend that they be paid their stipend as a part of their twenty-four semi-monthly checks, as are other board employees who receive extra duty pay.

Response: Payment to coaches is paid in the regular semi-monthly payroll.

Bank Reconciliations – To assist in providing a greater level of segregation of duties and to provide a level of supervision or oversight over the bank reconciliation process, we recommend that an individual, other than the Board Treasurer, be assigned the responsibility of preparing or overseeing the bank reconciliation process.

Response: In the 2007-2008 year, an outside CPA was engaged to assist in the bank reconciliation process.

Fixed Assets Inventory – It has been several years since the introduction of fixed assets as a part of the accounting system. An appraisal and inventory process was used to create a fixed asset inventory. Since then, assets have been added annually. However, there has not been a process in place to retire assets no longer in service, or to verify that all new assets have been recorded.

We recommend that the Board consider reviewing its fixed assets records for those assets omitted from the file or deleting those assets no longer in service. It could entail engaging an appraisal company to update those records. Cost may be a consideration as to when a re-inventory project could be undertaken.

Response: The District has not had the financial resources to implement this recommendation.

Dayton High School Budget – The High School did not prepare a budget for the 2006-2007 year, as required by the Kentucky Department of Education.

Response – The High School prepared a budget for 2007-2008.

Fund Deficits – The School Lunch Program, IDEA-B and Title I Federal program have consistently overspent their revenue sources, requiring the General Fund to subsidize or reimburse those funds.

We recommend that the Board review these operations, and to the extent possible increase revenue or adjust expenditures to not have deficit spending in these programs.

Response: **School Lunch Program** - In FY 2008, the School Lunch Program experienced an even greater loss. Controls over operations were not accomplished.

Title 1 – Program was monitored and at year end expenses were redirected to the General Fund.

Idea B Basic – The District took action to reduce expenditures related to this program (tuition). In the past we have outsourced certain educational services for students who were in need of assistance that we could not provide. For the 2007-2008 school year we have brought in a teacher to service those students instead of paying out the cost for tuition. Students now stay in district; this should be a dramatic cost reduction for the district.

Idea B Preschool – Program was monitored and at year end expenses were redirected to the General Fund.

CURRENT YEAR RECOMMENDATIONS

We recommend that the Board consider reviewing its fixed assets records. It could entail engaging an appraisal company to update those records. Cost may be a consideration as to when a re-inventory project could be undertaken. This is a repeat recommendation.

Management Response: The District has not had the financial resources to implement this recommendation.

Activity Fund (Dayton High and Lincoln Elementary)

We want to continually emphasize that because most financial activity is conducted by one individual (the Central Fund Treasurer), it is essential that school principals participate in the financial process by co-signing all checks and reviewing essential documentation such as bank reconciliations and invoices.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company". The signature is written in dark ink and is positioned above the typed address and date.

**Ft. Wright, Kentucky
October 24, 2008**